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C O N F I D E N T I A L BUENOS AIRES 000660

SIPDIS

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SUBJECT: ARGENTINA MENDS AIRLINE DISPUTE; HESITATES ON
GICNT

Classified By: Ambassador E. Anthony Wayne for reasons 1.4 (B) and (D).

¶1. (C) Summary: On May 16, Spanish Ambassador to Argentina Estrella (protect strictly) told the Ambassador that the Government of Argentina (GOA) and Spanish company Marsans have reached agreement over how to handle ownership of Aerolineas Argentinas and Austral Airlines. He said agreement was driven by GoA desire to sort this out before President Christina Fernandez de Kirchner (CFK) and Spanish President Zapatero meet in Lima at the May 16-17 EU-Latin America summit. He said that in general, a wide swath of GOA ministers are very concerned about plummeting polls for CFK and ex-President Nestor Kirchner (NK). He also indicated that a top MFA official had confided to him that Foreign Minister Taiana is hesitant to sign up for the Global Initiative to Combat Nuclear Terrorism (Global Initiative) because leftist activist Hebe de Bonafini had criticized this initiative publicly as "'U.S. imperialism'" trying to involve Argentina in the war on terror. Taiana is still weighing whether to attend the June Madrid meeting on this initiative, but he is being extra-cautious given criticism of him and the MFA for a number of missteps. We may want to weigh in quietly with Taiana and encourage other GICWT supporters to do so. End Summary.

Left Criticizes U.S.-Russian Initiative on

Combating Nuclear Terrorism

¶2. (C) Ambassador contacted Spanish Ambassador Estrella May 16 to compare notes on recent events and to get an update on possible Argentine participation in the June 16-18 meeting of the U.S.-Russian inspired GICNT which Spain is hosting in Madrid. On the latter item, Estrella said Spanish Foreign Minister Moratinos had raised this with Foreign Minister Taiana during Moratinos's recent visit to Buenos Aires. Estrella reported that Taiana said he was sympathetic but reluctant because it was not a UN initiative. He said he was still considering attending the Madrid meeting, however. Taiana's cabinet chief explained privately to Estrella that Taiana was particularly concerned that Argentine participation could lead to leftist criticism of him, and he did not need to confront that criticism right now, given recent scandals in the Foreign Ministry and criticisms of its actions. Specifically, leftist leader of the Mothers of the Plaza de Mayo, Hebe de Bonafini, had criticized the initiative publicly in early 2006 after then-U/S Burns had mentioned it publicly and invited Argentina to join. Apparently, she criticized the initiative as an effort by "U.S. imperialism" to "drag" Argentina into its war on terror. Estrella concluded that Taiana may still be convinced to go, but he was clearly watching out for his

political standing; he is still recovering from a string of missteps and rumors of his departure continue to appear in the press. (Comment: Per Buenos Aires 0589, the Ambassador raised the GICNT with Taiana on April 11, when Taiana said the GOA was looking favorably at attending the Madrid meeting, which would require an a priori GOA endorsement of the GICNT. MFA officials have told us recently that they are interested in ratifying the GICNT. We may want to encourage the Russians and other GICNT supporters to quietly urge Argentina to attend the Madrid meeting. End comment.)

Argentine Airline Agreements

13. (SBU) Estrella noted that basic agreement had been reached on a way forward in dealing with two Spanish-owned Argentine airlines (Aerolineas Argentinas and Austral). Estrella said that that agreement's timing was driven by GOA concerns that local press stories would again focus on alleged Spanish complaints about poor treatment of the Spanish-owned airlines when CFK and Rodriguez Zapatero meet in Lima on May 16-17. (See Buenos Aires 572 for background on this dispute.) The Spanish Marsans Group, at present majority owner of Aerolineas, has agreed with the GoA on a procedure for the entry into ownership by other private partners as well as the GOA and airline workers. Estrella said that Marsans will preserve control and the largest share of ownership. The prices for the purchase of Marsans shares will be set by a third party (press reports have noted that one to three outside auditors, such as Price Waterhouse, are being retained to establish the fair market value of the airline) based on an expected ten-year-value timeframe.

Appropriate clauses have been agreed that will allow Marsans to sell its remaining shares at a fair price within three years, if the GoA does not keep agreements it has made on fare increases, fuel prices, plane/equipment purchases, and other items. Estrella reported that the sale of shares in Aerolineas' smaller sister carrier, Austral Airlines, will be dealt with at the same time as Aerolineas Argentinas and at the same price per share level. He confirmed that the two airlines will be kept separate in an apparent GOA concession to the powerful unions of both airlines. (Austral staff conducted a wildcat strike May 10 to protest concerns that Austral would be subsumed by Aerolineas; they are not contesting a change in ownership but seek to remain a separate entity). Estrella said that GoA state financing will be available for private Argentine parties to buy shares and to pay for additional shares if Marsans pulls out for cause. Marsans will retain a 34% equity stake in Aerolineas.

Argentine businessman Juan Carlos Lopez Mena, owner of the Buquebus ferry line, will purchase a 26% share, and 10% will be purchased by other (presumably domestic) private investors. In addition, 10% of Aerolineas shares will be held by airline employees and the GoA's own stake will be increased from 5% to 20%. (Local press reports, meanwhile, indicate that Marsans's and Lopez Mena's share breakdowns have not yet been specifically established.)

Government Popularity

14. (SBU) Estrella said that he had talked privately with a good number of several Argentine government ministers recently, and they were uniformly very worried about the government's plummeting standing in the polls. CFK had dropped 20% in four months and Nestor Kirchner was now also dropping markedly, though he is still more popular than his wife. Ministers also note that by contrast, Brazil has received investment grade marks from international credit rating agencies and is being courted by countries from around the world.

WAYNE